

HERKIMER TOBACCO
ASSET
SECURITIZATION
CORPORATION

(A BLENDED COMPONENT
UNIT OF THE COUNTY OF
HERKIMER, NEW YORK)

MANAGEMENT'S
DISCUSSION AND
ANALYSIS AND BASIC
FINANCIAL
STATEMENTS

For the Year Ended
December 31, 2021

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

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D'Arcangelo & Co., LLP
Certified Public Accountants & Consultants

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Independent Auditor's Report

Board of Directors
Herkimer Tobacco Asset Securitization Corporation

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Herkimer Tobacco Asset Securitization Corporation (Corporation), a blended component unit of the County of Herkimer, New York, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Herkimer Tobacco Asset Securitization Corporation, as of December 31, 2021, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Herkimer Tobacco Asset Securitization Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Herkimer Tobacco Asset Securitization Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Herkimer Tobacco Asset Securitization Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Herkimer Tobacco Asset Securitization Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, is the responsibility of management, and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2022, on our consideration of the Herkimer Tobacco Asset Securitization Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Herkimer Tobacco Asset Securitization Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

D'Arcangelo + Co., LLP

March 23, 2022

Utica, New York

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

D'Arcangelo & Co., LLP

March 23, 2022

Utica, New York

D'Arcangelo & Co., LLP

Certified Public Accountants & Consultants

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board Members

Herkimer Tobacco Asset Securitization Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Herkimer Tobacco Asset Securitization Corporation (Corporation), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 23, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended December 31, 2021

The following is a discussion and analysis of the Herkimer Tobacco Asset Securitization Corporation (Corporation)'s financial performance for the years ended December 31, 2021 and 2020. This section is a summary of the Corporation's financial activities based on currently known facts, decisions and conditions. This section is only an introduction and should be read in conjunction with the Corporation's financial statements, which immediately follow this section.

1. INTRODUCTION

Herkimer Tobacco Asset Securitization Corporation (Corporation) is a not-for-profit corporation formed exclusively for the purpose of acquiring from the County of Herkimer, New York (County) all or any of the rights, titles, and interest of the County under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various settling states and participating manufacturers. The Corporation is an instrumentality of, but separate and apart from, the County. In accordance with the Government Accounting Standards Board, financial activity of the Corporation is presented as a blended component unit in the County of Herkimer's Annual Financial Statements.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The financial statement presentation consists of the following four basic financial statements:

- Statement of Net Position
- Statement of Activities
- Governmental Fund Balance Sheet and the Reconciliation to the Statement of Net Position
- Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance and the Reconciliation to the Statement of Activities

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, assets and liabilities resulting from non-exchange transactions are recognized when the amounts to be received are measurable and collection is probable. The Balance Sheet-Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These policies are more fully described in the accompanying notes to the basic financial statements.

3. SUMMARY OF FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal years 2021 and 2020 are as follows:

- The Corporation's Net Position decreased from a deficit of \$23,447,439 to a deficit of \$23,952,982.
- The Corporation's Change in Net Position for the years ending December 31, 2021 and 2020 was (\$505,543) and (\$611,944), respectively.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended December 31, 2021

4. FINANCIAL ANALYSIS

A summary of the Corporation's Statement of Net Position for December 31, 2021 and 2020, is as follows:

| Table A-1 Statement of Net Position | | | | |
|--|---------------------|---------------------|------------------------|----------------------|
| | 2021 | 2020 | Increase (Decrease) | Percentage Change |
| Cash and Cash Equivalents | \$ 146,346 | \$ 134,609 | \$ 11,737 | 8.7% |
| Deposits Held With Trustees | 1,181,804 | 1,141,449 | 40,355 | 3.5% |
| Prepaid Expenditures | 6,856 | 3,619 | 3,237 | 89.4% |
| Total Assets | <u>1,335,006</u> | <u>1,279,677</u> | <u>55,329</u> | 4.3% |
| Deferred Outflows of Resources | <u>563,448</u> | <u>585,119</u> | <u>(21,671)</u> | (3.7%) |
| Total Assets and Deferred Outflows | <u>\$ 1,898,454</u> | <u>\$ 1,864,796</u> | <u>\$ 33,658</u> | 1.8% |
| Current and other Liabilities | \$ 329,469 | \$ 289,933 | \$ 39,536 | 13.6% |
| Non-Current Liabilities | <u>25,521,967</u> | <u>25,022,302</u> | <u>499,665</u> | 2.0% |
| Total Liabilities | 25,851,436 | 25,312,235 | 539,201 | 2.1% |
| Net Position | | | | |
| Restricted | 1,181,804 | 1,141,449 | 40,355 | 3.5% |
| Unrestricted (Deficit) | <u>(25,134,786)</u> | <u>(24,588,888)</u> | <u>(545,898)</u> | (2.2%) |
| Total Liabilities and Net Position | <u>\$ 1,898,454</u> | <u>\$ 1,864,796</u> | <u>\$ 33,658</u> | 1.8% |

Deposits held with Trustees represent a reserve that has been established pursuant to the Corporation's indenture and was funded from the proceeds of the Series 2005 bonds. The reserve is required to be funded in an amount equal to the maximum annual debt service on the Series 2005 bonds.

Deferred outflows of resources decreased by \$21,671 or 3.7% from December 31, 2020 to December 31, 2021. The decrease is related the amortization of Bond Issuance Cost/Discounts related to the Sale of Series 2005 bonds and the refunding of Series 2000 bonds.

Non-Current Liabilities increased by \$499,665 due to the accretion of capital appreciation bonds in the amount of \$719,665 offset by the payment of principal on bonds outstanding of \$220,000.

Unrestricted net position decreased from a deficit of \$24,588,888 in 2020 to a deficit of \$25,134,786 in 2021 due to expenditures exceeding revenues in the amount of \$505,543.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended December 31, 2021

The results of this year's operations as a whole are reported in the Statement of Activities in the accompanying financial statements. A summary of this statement for the year ended December 31, 2021 and 2020 is as follows.

Table A-2 Changes in Net Position

| Revenues | 2021 | 2020 | Increase (Decrease) | Percentage Change |
|----------------------------|--------------|--------------|--------------------------------|------------------------------|
| Tobacco Settlement Revenue | \$ 1,085,468 | \$ 1,003,720 | \$ 81,748 | 8.1% |
| Interest | 591 | 10,418 | (9,827) | (94.3%) |
| Total Revenues | 1,086,059 | 1,014,138 | 71,921 | 7.1% |
| Expenses | | | | |
| General Government Support | 31,415 | 26,109 | 5,306 | 20.3% |
| Debt Service- Interest | 1,560,187 | 1,599,973 | (39,786) | (2.5%) |
| Total Expenses | 1,591,602 | 1,626,082 | (34,480) | (2.1%) |
| Change in Net Position | \$ (505,543) | \$ (611,944) | \$ 106,401 | |

The Corporation's revenues increased by \$71,921 or 7.1% between the years ended December 31, 2020 and December 31, 2021. This increase was primarily the result of an increase in Tobacco Settlement Revenue (TSR) payments received during the 2021 year.

The Corporation's expenditures decreased by \$34,480 or 2.1% between the years ended December 31, 2020 and December 31, 2021. This was primarily due to a decrease of \$39,786 in debt service interest payment on bonds.

5. FACTORS BEARING ON THE CORPORATION'S FUTURE

Tobacco settlement revenue is the primary revenue source for the Corporation. Tobacco settlement revenue is dependent on future tobacco sales, as well as the participating manufacturers' ability to pay. Increases or decreases in tobacco consumption will result in corresponding increases or decreases in tobacco settlement revenue. The ability of the Corporation to make debt service payments on bonds is contingent upon the receipt of tobacco settlement payments.

6. CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Herkimer County Department of Finance at the Herkimer County Office Building, 109 Mary Street, Suite 1310, Room 314, Herkimer, New York 13350.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

STATEMENT OF NET POSITION

December 31, 2021

Assets

| | |
|-----------------------------|------------------|
| Cash and Cash Equivalents | \$ 146,346 |
| Deposits Held With Trustees | 1,181,804 |
| Prepaid Expenditures | <u>6,856</u> |
| Total Assets | <u>1,335,006</u> |

Deferred Outflows of Resources

| | |
|---|----------------|
| Bond Discounts and Escrow Deposits, Net | 326,370 |
| Bond Issuance Costs, Net | <u>237,078</u> |
| Total Deferred Outflows of Resources | <u>563,448</u> |

Total Assets and Deferred Outflows of Resources

\$ 1,898,454

Liabilities

Current Liabilities

| | |
|-----------------------------------|----------------|
| Accrued Interest | \$ 29,469 |
| Current Portion of Long Term Debt | <u>300,000</u> |
| Total Current Liabilities | <u>329,469</u> |

Noncurrent Liabilities

| | |
|-------------------|-------------------|
| Long-Term Debt | <u>25,521,967</u> |
| Total Liabilities | 25,851,436 |

Net Position (Deficit)

| | |
|-----------------------------|---------------------|
| Restricted for Debt Service | 1,181,804 |
| Unrestricted (Deficit) | <u>(25,134,786)</u> |
| Net Position (Deficit) | <u>(23,952,982)</u> |

Total Liabilities and Net Position (Deficit)

\$ 1,898,454

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2021

| Functions/Programs | <u>Expenses</u> | <u>Net (Expense) and Changes in Net Position</u> |
|---|---------------------|--|
| General Government Support | \$ 31,415 | \$ (31,415) |
| Debt Service-Interest | <u>1,560,187</u> | <u>(1,560,187)</u> |
| Total Functions/Programs | <u>\$ 1,591,602</u> | <u>(1,591,602)</u> |
| General Revenues | | |
| Tobacco settlement revenue | | 1,085,468 |
| Interest | | <u>591</u> |
| Total General Revenues | | <u>1,086,059</u> |
| Change in Net Position | | (505,543) |
| Net Position (Deficit), Beginning of Year | | <u>(23,447,439)</u> |
| Net Position (Deficit), End of Year | | <u>\$ (23,952,982)</u> |

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

BALANCE SHEET- GOVERNMENTAL FUNDS

December 31, 2021

| | <u>General</u> | <u>Debt Service</u> | <u>Total</u> |
|--|-----------------------|-------------------------|-------------------------|
| Assets | | | |
| Cash and Cash Equivalents | \$ 146,346 | \$ 0 | \$ 146,346 |
| Deposits Held With Trustees | 0 | 1,181,804 | 1,181,804 |
| Prepaid Expenditures | <u>6,856</u> | <u>0</u> | <u>6,856</u> |
| Total Assets | <u>\$ 153,202</u> | <u>\$ 1,181,804</u> | <u>\$ 1,335,006</u> |
| Fund Balance | | | |
| Nonspendable | \$ 6,856 | \$ 0 | \$ 6,856 |
| Restricted for Debt Service | 0 | 1,181,804 | 1,181,804 |
| Unassigned | <u>146,346</u> | <u>0</u> | <u>146,346</u> |
| Total Fund Balance | <u>153,202</u> | <u>1,181,804</u> | <u>1,335,006</u> |
| Total Liabilities and Fund Balance | <u>\$ 153,202</u> | <u>\$ 1,181,804</u> | <u>\$ 1,335,006</u> |

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES TO
GOVERNMENT-WIDE NET POSITION**

December 31, 2021

| | | |
|---------------------------------|----|-----------|
| Total Governmental Fund Balance | \$ | 1,335,006 |
|---------------------------------|----|-----------|

Amounts reported for governmental activities in the Statement of Net Position are different because of the following:

| | |
|--|---------|
| Deferred charges/discounts associated with the refunding of bonds are not reported in the governmental funds. The charge is reported as a deferred outflow of resources on the statement of net position and is recognized as a component of interest expense over the life of the related debt. | 563,448 |
|--|---------|

Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.

| | | | |
|------------------------------|--------------------------|---------------------|----------------------------|
| | Accrued interest payable | (29,469) | |
| | Bonds Payable | <u>(25,821,967)</u> | <u>(25,851,436)</u> |
| Total Net Position (Deficit) | | \$ | <u><u>(23,952,982)</u></u> |

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2021

| | <u>General</u> | <u>Debt Service</u> | <u>Total</u> |
|---|-------------------|-------------------------|---------------------|
| Revenues | | | |
| Tobacco Settlement Rights (TSR) | \$ 0 | \$ 1,085,468 | \$ 1,085,468 |
| Interest | <u>90</u> | <u>501</u> | <u>591</u> |
| Total Assets | <u>90</u> | <u>1,085,969</u> | <u>1,086,059</u> |
| Expenditures | | | |
| Professional Fees | 17,300 | 0 | 17,300 |
| Director Insurance | 4,440 | 0 | 4,440 |
| Bond Trustee Fee | 8,650 | 0 | 8,650 |
| Director Fees and Expenditures | 500 | 0 | 500 |
| Telephone and Rent | 272 | 0 | 272 |
| Liability Insurance | 253 | 0 | 253 |
| Debt Service-Principal | 0 | 220,000 | 220,000 |
| Debt Service- Interest | <u>0</u> | <u>774,315</u> | <u>774,315</u> |
| Total Expenditures | <u>31,415</u> | <u>994,315</u> | <u>1,025,730</u> |
| Excess (Deficit) Revenues Over Expenditures | <u>(31,325)</u> | <u>91,654</u> | <u>60,329</u> |
| Other Financing Sources (Uses) | | | |
| Transfers in | 51,299 | 0 | 51,299 |
| Transfers out | <u>0</u> | <u>(51,299)</u> | <u>(51,299)</u> |
| Total Other Financing Sources (Uses) | <u>51,299</u> | <u>(51,299)</u> | <u>0</u> |
| Excess (Deficit) Revenues Over Expenditures and Other Financing Sources (Uses) | 19,974 | 40,355 | 60,329 |
| Fund Balance, Beginning of Year | <u>133,228</u> | <u>1,141,449</u> | <u>1,274,677</u> |
| Fund Balance, End of Year | <u>\$ 153,202</u> | <u>\$ 1,181,804</u> | <u>\$ 1,335,006</u> |

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

**RECONCILIATION OF THE STATEMENT OF REVENUES AND EXPENDITURES OF THE
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2021

| | | |
|--|----|--------|
| Net Changes in Fund Balance-Total Governmental Funds | \$ | 60,329 |
|--|----|--------|

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Repayments of bond principal is an expenditure in governmental funds, but the repayment reduces long term liabilities in the statement of net position.

| | | |
|--------------------|--|---------|
| Principal Payments | | 220,000 |
|--------------------|--|---------|

Proceeds of debt refunding and payments to escrow agents as part of debt refunding are reported as other financing sources (uses) in the governmental funds. However, the amount of the proceeds in excess of the defeasance of old debt is deferred in the Statement of Net Position and amortized as a component of interest expense over the remaining life of the new debt. This is the amount of amortized interest expense on prior year refundings:

| | | |
|---|--|----------|
| Amortization of Deferred Charges/Discounts on Refunding | | (21,671) |
|---|--|----------|

Certain expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

| | | | |
|------------------------------------|-----------|--|-----------|
| Change in Accrued Interest Payable | 35,464 | | |
| Accretion of Interest | (799,665) | | (764,201) |

| | | |
|--|----|-----------|
| Change in Net Position Governmental Activities | \$ | (505,543) |
|--|----|-----------|

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background and Operations

Herkimer Tobacco Asset Securitization Corporation (Corporation) is a not-for-profit corporation formed exclusively for the purpose of acquiring from the County of Herkimer, New York (County) all or any of the rights, titles, and interest of the County under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various settling states and participating manufacturers. The Corporation is an instrumentality of, but separate and apart from, the County. In accordance with the Government Accounting Standards Board, financial activity of the Corporation is presented as a blended component unit in the County of Herkimer's Annual Financial Statements.

In lieu of receiving the Tobacco Settlement Rights (TSR), the Corporation, in conjunction with the New York Counties Tobacco Trust I, Trust IV, and Trust V issued Tobacco Settlement Pass-Through Bonds. The bonds have been issued to the Trust pursuant to an indenture between the Corporation and Manufacturers and Traders Trust Company (the Trustee).

The Corporation is primarily dependent on the future proceeds from the TSR to meet future obligations under the indenture agreement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America and follows the guidance set forth by the Governmental Accounting Standards Board (GASB).

- ***Government-Wide Financial Statements***

The Statement of Net Position and the Statement of Activities present financial information about the Corporations governmental activities. These statements include the financial activities of the overall corporation in its entirety.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

State statutes require that collateral be pledged at 100 percent of all deposits not covered by Federal Deposit Insurance Corporation insurance for demand deposits, time deposits, repurchase agreements, and certificates of deposit. Obligations of the United States Treasury and its agencies as well as obligations of New York State and its municipalities and Towns may be pledged. Investments are carried at market value.

The Corporation's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of six months or less from date of acquisition. New York State law governs the Corporation's investment policies. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Corporation has reported deferred outflows of resources of \$563,448 for the net deferred bond issuance costs/discounts on refunding bonds in the Statement of Net Position. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Equity Classification

- ***Government-Wide Financial Statements***

Unrestricted net position is the portion of net position that is not restricted, but which may be internally designated by the Board of Directors. At December 31, 2021, the unrestricted net position deficit was \$25,134,786 and none was internally designated.

Net position is reported as restricted when constraints placed on its use are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At December 31, 2021, the restricted net position was \$1,181,804.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ***Fund Financial Statements***

GASB requires more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable - These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - These are amounts that can be used only for specific purposes determined by a formal action of the Board of Directors prior to year-end. The Board of Directors is the highest level of decision-making authority for the Corporation. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned - These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Board of Directors makes a determination of the assigned amounts of fund balance.

Unassigned - These are all other spendable amounts.

NOTE 2 TAX STATUS

The Corporation is a tax-exempt organization whereby its income is deemed exempt under the provisions of Section 115(1) of the Internal Revenue Code and utilizes December 31 as its fiscal year end.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 3 BOND ISSUANCE COSTS

The Corporation has incurred costs associated with the Series 2005 and Series 2000 bond issues. Such costs are deferred and amortized using the straight-line method over the remaining life of the related debt. Amortization expense on bond issuance costs was \$9,119 for the year ended December 31, 2021. Bond issuance costs net of accumulated amortization at December 31, 2021, were as follows:

| | |
|--------------------------|-------------------|
| Bond Issuance Costs | \$ 610,511 |
| Accumulated Amortization | <u>(373,433)</u> |
| Bond Issuance Costs, Net | <u>\$ 237,078</u> |

The estimated aggregate amortization expense for each of the five succeeding years is approximately \$9,119.

NOTE 4 BOND DISCOUNTS AND ESCROW DEPOSITS

The Corporation recorded unamortized bond discounts and escrow deposits of \$326,370 at December 31, 2021 in conjunction with the sale of the Series 2005 and advance refunding of the Series 2000 bonds. These costs have been deferred and are being amortized as interest expense over the remaining life of the bonds. For the year ended December 31, 2021, the Corporation recorded \$12,552 as interest expense associated with these costs.

NOTE 5 DEPOSITS HELD WITH TRUSTEES

Deposits Held with Trustees represent a reserve that has been established pursuant to the Corporation's indenture and was funded from the proceeds of the Series 2005 bonds. The reserve is required to be funded in an amount equal to the maximum annual debt service on the Series 2005 Bonds.

Deposits Held with Trustees at December 31, 2021, are comprised of money market funds and invested cash which are considered cash and cash equivalents.

NOTE 6 LONG-TERM DEBT

Advanced Refunding

On December 7, 2000, the New York Counties Tobacco Trust (NYCTT) I, issued \$227,130,000 aggregate principal amount of Tobacco Settlement Pass-Through Bonds, Series 2000. These bonds are special obligations of 17 different TASCs participating within the issue. The debt service is payable solely from pledged TSR and investment earnings on amounts on deposit as defined within each TASC's respective indenture. As a result of this borrowing, the Corporation received \$14,280,000 net of underwriter

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (Continued)

discount fees. According to the terms of the required amortization payments, the Corporation is required to make annual debt service payments through December 31, 2042, with interest ranging from 5.000% to 6.625%.

NYCTT IV - 2005 Series Bonds (Advance Refunding)

Bonds issued to complete the advanced refunding as described above have varying interest rates and maturity dates as follows:

| <u>Issue</u> | <u>Maturity</u> | <u>Rate (%)</u> | <u>Outstanding Balance</u> |
|--------------|-----------------|-----------------|--------------------------------|
| 2005A | 6/01/2026 | 5.00 | \$ 9,320,000 |
| 2005C | 6/01/2035 | 6.25 | 4,800,000 |
| Total | | | <u>\$ 14,120,000</u> |

At December 31, 2021, the Corporation recorded accrued interest of \$29,469 on the outstanding bonds.

The following schedule of projected turbo redemption payments is based upon the Global Insight Base Case Consumption Forecast as defined in New York Counties Tobacco Trust IV and V official statements:

| <u>December 31,</u> | <u>Amount</u> |
|----------------------------------|---------------------|
| 2022 | \$ 300,000 |
| 2023 | 300,000 |
| 2024 | 300,000 |
| 2025 | 400,000 |
| 2026 | 400,000 |
| Thereafter | <u>12,420,000</u> |
| Total Minimum Principal Payments | <u>\$14,120,000</u> |

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (Continued)

NYCTT IV - Series 2005D and 2005E Bonds (Subordinate Bonds)

In conjunction with the advance refunding, the Corporation completed the sale of Series 2005D and 2005E capital appreciation bonds carrying varying yields and were sold discounted (zero coupon). As required by generally accepted accounting principles, HTASC accretes the effective interest appreciation over the life of the bonds to maturity. Changes to the bond values during the year are as follows:

| <u>Issue</u> | <u>Maturity</u> | <u>Rate</u> | <u>Accreted Balance Outstanding at January 1, 2021</u> | <u>Increase</u> | <u>Accreted Balance Outstanding at December 31, 2021</u> |
|--------------|-----------------|-------------|--|-------------------|--|
| Series 2005D | 06/01/27 | 5.88% | \$ 2,076,156 | \$ 123,847 | \$ 2,200,003 |
| Series 2005E | 06/01/29 | 6.38% | 2,028,662 | 131,546 | 2,160,208 |
| Total | | | <u>\$ 4,104,818</u> | <u>\$ 255,393</u> | <u>\$ 4,360,211</u> |

The Series 2005D and 2005E bonds are subordinate to the Series 2005 bonds in the advance refunding discussed above. No interest or principal will be paid on these bonds until all other series bonds of the corporation are redeemed. Funds expected to be used for redemption of these bonds will come from the Tobacco Settlement Receipts and payments are not anticipated until the year 2026.

Redemption of the bonds based on the turbo redemption schedule is anticipated to mature as follows:

| <u>Outstanding Year</u> | <u>Principal</u> |
|-----------------------------|---------------------|
| 2026 | \$ 2,365,679 |
| 2027 | 1,671,710 |
| 2028 | 1,692,888 |
| 2029 | 559,445 |
| Total | <u>\$ 6,289,722</u> |

NYCTT V - Series 2005S4B (Subordinate Bonds)

The Corporation completed a bond issue of \$2,224,416 in November 2005. The net proceeds of \$2,096,082 (after issuance costs of \$128,334) were transferred to the residual trust. These bonds noted as Series 2005S4B carry varying yields and were sold discounted (zero coupon) similar to Series 2005D and Series 2005E. Changes to the bond values are as follows:

| <u>Issue</u> | <u>Maturity</u> | <u>Rate</u> | <u>Accreted Balance Outstanding at January 1, 2021</u> | <u>Increase</u> | <u>Accreted Balance Outstanding at December 31, 2021</u> |
|----------------|-----------------|-------------|--|-----------------|--|
| Series 2005S4B | 2029-2040 | 7.85% | \$ 6,797,484 | \$ 544,272 | \$ 7,341,756 |

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (Continued)

The Series 2005S4B bonds are subordinate to all of the Series 2005 bonds issued in conjunction with NYCTT IV discussed above. No interest or principal will be paid on these bonds until all other series bonds of the corporation are redeemed. Funds expected to be used for redemption of these bonds will come from the Tobacco Settlement Receipts and payments are not anticipated until the year 2029.

Redemption of the bonds based on the turbo redemption schedule is anticipated to mature as follows:

| <u>Year</u> | <u>Total</u> |
|-------------|----------------------|
| 2029 | \$ 1,139,560 |
| 2030 | 1,737,050 |
| 2031 | 1,758,244 |
| 2032 | 1,783,166 |
| 2033 | 1,800,720 |
| Thereafter | <u>11,812,222</u> |
| Total | <u>\$ 20,030,962</u> |

NOTE 7 RELATED PARTY

The Corporation is a special purpose local development corporation and is considered by legal counsel to be bankruptcy-remote from the County of Herkimer. However, the Corporation's board of directors is comprised of a majority of elected or appointed officials of the County of Herkimer. For financial reporting purposes, the Corporation is considered a blended component unit of the County of Herkimer.

NOTE 8 CONTINGENCIES

The ability of HTASC to meet debt service payments of bonds is contingent upon the receipt of TSRs. TSRs are principally dependent upon future levels of domestic consumption. A significant decline in the overall consumption of cigarettes could have a material adverse effect on the payments by the original participating manufacturers (OPMs) under the MSA and the amounts available to HTASC to make payments of principal and interest on their bonds.

Certain smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayers, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA. In the event of an adverse court ruling in such types of litigation, Bondholders could incur a complete loss of their investment.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 8 CONTINGENCIES (Continued)

Additionally, the OPMS are also exposed to liability from various lawsuits including individual lawsuits, class action lawsuits and health care cost recovery litigation. Ultimately, the outcome of these and any other pending or future lawsuits is uncertain. One or more adverse judgments could result in delays in, or reductions of amounts available for, payments on the bonds.

NOTE 9 NET POSITION DEFICIT

HTASC has an unrestricted deficit of \$25,134,786 in net position as a result of the outstanding bonds. As these bonds are repaid, this will help to reduce the deficit, along with the future revenue streams.

NOTE 10 SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 23, 2022, the date on which the financial statements were available to be issued.